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	INL-00	DODE-00	ITCE-00	DOTE-00	EXME-00	E-00	FAAE-00
	UTED-00	VCI-00	FRB-00	H-00	TEDE-00	INR-00	LAB-01
	L-00	VCIE-00	NSAE-00	ISN-00	NSCE-00	OES-00	OMB-00
	NIMA-00	EPAU-00	MA-00	ISNE-00	SP-00	SSO-00	SS-00
	STR-00	TRSE-00	NCTC-00	FMP-00	BBG-00	R-00	EPAE-00
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E.O. 12958: N/A
TAGS: ECON EINV EIND ETRD MX
SUBJECT: SILICON VALLEY (SOUTH)

REF: (A) 08 MONTERREY 314 (B) 08 TIJUANA 977 C) 07 MONTEREY 783

BRINGING HIGH-TECH TO THE MEXICAN DESERT

¶1. Mexico has had only moderate success in attracting high-tech industries. Guadalajara, in south-central Mexico, claims to be the "Mexican Silicon Valley", being a leading producer of software and electronic and digital components. Some states have attracted aerospace companies. However, most high-tech companies only do their manufacturing in Mexico. Mexico lags other middle income countries, particularly those in Asia, in moving to the next pillar of high-tech: design, development, and testing (see refs A and B). A group of American executives from the semi-conductor industry is trying to change that. Their investment, dubbed "Silicon Border", is a ten acre science park modeled on Taiwan's highly successful Hsinchu Science Park. Located just outside the Baja California state capitol, Mexicali, and adjacent to the U.S. border, Silicon Border will create an "Asian cost structure in North America", according to its CEO, Daniel Hill.

¶2. Science parks differ from the traditional industrial parks found throughout Mexico in that they focus solely on high-tech industries ("taking items from the element chart and making them into products", as Hill describes it) and usually contain academic institutions on site. The Autonomous University of Baja California (UABC) has already committed to a campus inside Silicon Border, and a private university, the Center for Technical Teaching (CETYS), is interested in setting up laboratories inside the park. Silicon Border is designed to attract companies in the photovoltaic (electronic components used as light sensors), flat panel display, semiconductor, MEMS (microelectromechanical) and NANO (nanotechnology), LED (little light bulbs commonly found on electronic devices), aerospace, and ultra-precision machining industries.

COMPETING WITH ASIAN RIVALS, COPING WITH THE CREDIT CRUNCH

¶3. Hill told econoff that Mexicali was an attractive location due to abundant energy at a low cost (Mexicali has two thermoelectric plants and one natural gas-fired energy plant, and high volume users are charged only seven cents a k/h), sufficient water supply (out of five municipalities in Baja, Mexicali is the only one without serious water supply issues), reasonable wages (only $25k/year for engineers), and an educated workforce. The state and federal governments have also put together attractive tax incentives, particularly for the first companies that become tenants. According to Hill, the above factors make Baja's cost structure very competitive with Asia, even if wages are still a bit higher in Mexico than in China. Mexico's intellectual property laws are also generally considered to be better than those of China or India. What

will give Silicon Border a real advantage over Asian factories, according to Hill, is the location, in the heart of NAFTA, the largest market in the world. He hopes companies will see a benefit in reducing transport times to hours, rather than days from Asian factories, and having overlapping time zones which will make doing business more efficient.

¶4. Despite these advantages, Mexicali is not yet assured to become the Silicon Valley of the south. While Mexico as a whole does a good job educating engineers, Baja California has a difficult time retaining them in state as they are lured away by job offers in Mexico City, Monterrey, or the U.S. Silicon Border's location in the hot desert of Mexicali will hardly be more appealing. Security concerns may scare off some investors (Hill admits he lost one potential alternative energy company due to this issue). The company's plans to build a border crossing on-site have not even been vetted with the USG or GOM. The biggest obstacle, however, has been timing. Silicon Border is completing construction just as the global credit crunch is hurting potential investors. Its first announced tenant, Q-Cells, a German solar panel manufacturer, had to back out recently when it lost its credit line with ING. A similar park near Monterrey, Mexico, called "City of Knowledge" is only fifty percent full (ref C).

¶5. COMMENT: Still, Silicon Border's investors are veterans of the semiconductor industry in Asia, so are not unaccustomed to some of the obstacles faced in setting up factories in an overseas environment. They appear undeterred by the challenges. Hill says he is in negotiations with ten or eleven firms, from the U.S., Taiwan, and Japan, and expects three or four of those firms to make announcements this year that they will be moving into Silicon Border. He hopes to have leased all the land by ¶2011.

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